

HUDSON COMMUNITY SCHOOL DISTRICT  
HUDSON, IOWA

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2006

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# HUDSON COMMUNITY SCHOOL DISTRICT

## OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2005 Election)		
Maureen Hanson	President	2007
Douglas Hemesath	Vice President	2005
Julie Marsch	Board Member	2005
Carrie Brown	Board Member	2006
Jeff Cory	Board Member	2007
<u>Board of Education</u>		
(After September 2005 Election)		
Maureen Hanson	President	2007
Julie Marsch	Vice President	2008
Carrie Brown	Board Member	2006
Jeff Cory	Board Member	2007
Trent Goodnight	Board Member	2008
<u>School Officials</u>		
David Pappone	Superintendent	September 29, 2006
Lois Scally	District Secretary	2006
Max Boyd	District Treasurer	2006
Steven Weidner	Attorney	Indefinite

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education of  
Hudson Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hudson Community School District, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Hudson Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 24, 2006 on our consideration of Hudson Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 7 through 16 and 52 through 54 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hudson Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 7 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa  
August 24, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Hudson Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### Financial Highlights

- General Fund revenues decreased from \$6,214,086 in fiscal 2005 to \$6,109,056 in fiscal 2006, while General Fund expenditures increased from \$6,248,477 in fiscal 2005 to \$6,286,800 in fiscal 2006. This contributed to a decrease in the District's General Fund balance from \$493,000 in fiscal 2005 to \$316,339 in fiscal 2006, a 36 percent decrease from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in enrollment in fiscal year 2005 which resulted in a decrease in state revenues in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits, restricted grant expenditures, and the purchase of six copiers.
- General Fund expenditures exceeded General Fund revenues by \$177,744. The fund balance decreased primarily due to negotiated salary and benefit increases as well as increased utility costs and fuel costs for our buses.
- A slight increase in interest rates during the fiscal year resulted in interest earnings in the General Fund alone to increase from \$27,649 in fiscal year 2005 to \$42,063 in fiscal year 2006.

### Overview of the Financial Statements

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Hudson Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Hudson Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Hudson Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds.

Figure A-1 shows how the various parts of this annual report are arranged and relates to one another.

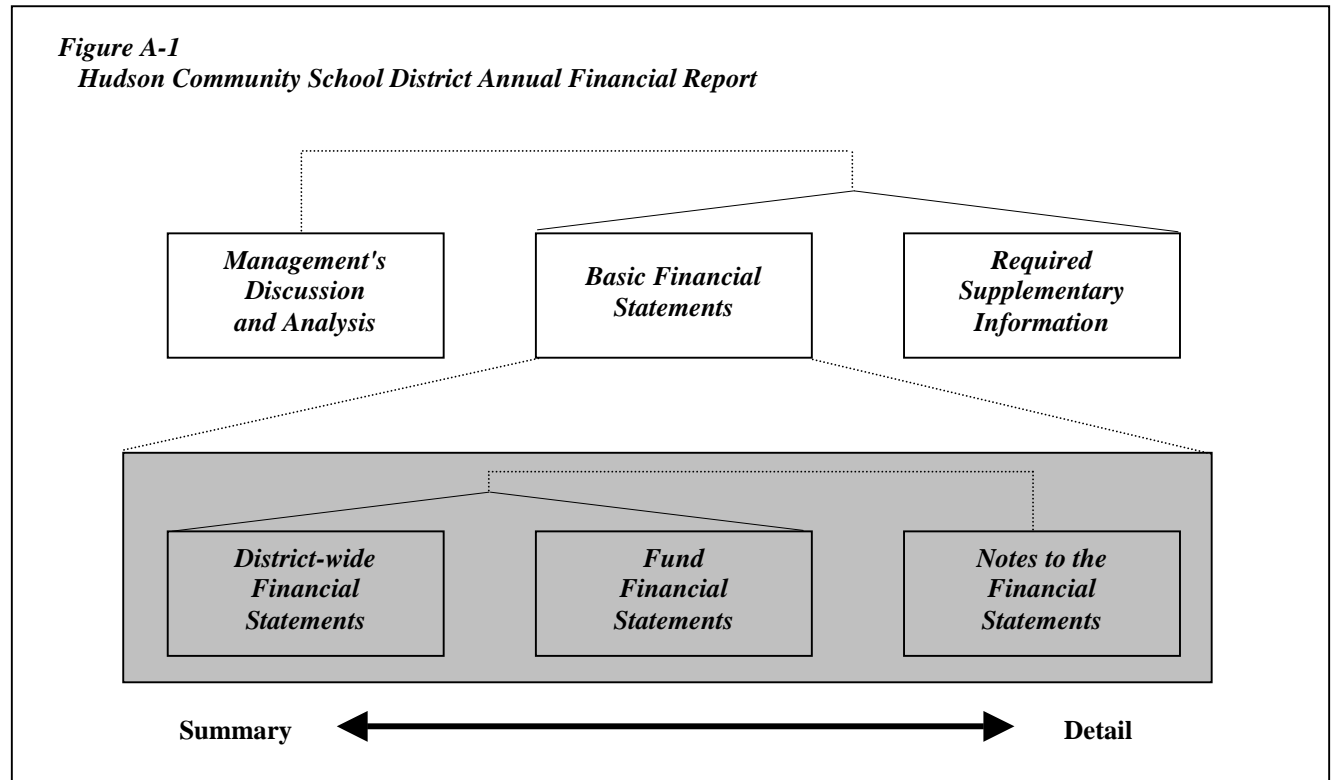




Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b> <b>Major Features of the District-Wide and Fund Financial Statements</b>				
	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two District-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

## Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.

- The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.
- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.
  - The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund, and two Internal Service Funds, the Health Fund, which partially covers the health insurance plan, and the Dental Fund, which covers the dental plan.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Funds.
  - Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

### Financial Analysis of the District as a Whole

**Net assets** - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 compared to fiscal year 2005.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total Change
	2006	2005	2006	2005	2006	2005	2005-2006
Current and other assets	5,218,312	5,383,549	15,826	-5,853	5,234,138	5,377,696	-2.70%
Capital assets	<u>7,619,288</u>	<u>7,539,873</u>	<u>26,362</u>	<u>33,936</u>	<u>7,645,650</u>	<u>7,573,809</u>	0.90%
Total assets	12,837,600	12,923,422	42,188	28,083	12,879,788	12,951,505	-0.60%
Long-term liabilities	3,607,083	4,019,511	0	0	3,607,083	4,019,511	-10.30%
Other liabilities	<u>3,431,099</u>	<u>3,559,257</u>	<u>14,179</u>	<u>17,884</u>	<u>3,445,278</u>	<u>3,577,141</u>	-3.70%
Total liabilities	7,038,182	7,578,768	14,179	17,884	7,052,361	7,596,652	-7.20%
Net assets:							
Invested in capital assets, net of related debt	4,612,262	3,841,646	26,362	33,936	4,638,624	3,875,582	19.70%
Restricted	566,871	704,296	0	0	566,871	704,296	-19.50%
Unrestricted	<u>620,285</u>	<u>798,712</u>	<u>1,647</u>	<u>-23,737</u>	<u>621,932</u>	<u>774,975</u>	-19.70%
Total net assets	5,799,418	5,344,654	28,009	10,199	5,827,427	5,354,853	8.80%

The District's combined net assets at June 30, 2006 compared to fiscal year 2005 are listed in Figure A-3. The District's net assets increased 8.8% to \$5,827,427. The improvement in financial position came from governmental activities, the net assets of which grew \$454,764.

Restricted net assets represent resources that are subject to external restriction, constitutional provisions or enabling legislation on how they can be used.

Unrestricted net assets represent the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements.

Figure A-4 shows the change in net assets for the year ended June 30, 2006 compared to fiscal year 2005.

Figure A-4  
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program Revenues:							
Charges for service	1,030,564	1,016,867	244,313	207,225	1,274,877	1,224,092	0.041
Operating grants, contributions and restricted interest	545,436	570,219	82,668	73,374	628,104	643,593	-0.024
Capital grants, contributions and restricted interest	59,828	24,557	0	0	59,828	24,557	1.436
General revenues:							
Property tax	2,097,151	2,016,323	0	0	2,097,151	2,016,323	0.04
Local option sales and service tax	681,304	647,622	0	0	681,304	647,622	0.052
Income surtax	272,286	241,187	0	0	272,286	241,187	0.129
Unrestricted state grants	2,724,939	2,912,859	0	0	2,724,939	2,912,859	-0.065
Unrestricted investment earnings	73,088	44,537	232	99	73,320	44,636	0.643
Other	<u>55,602</u>	<u>64,894</u>	<u>0</u>	<u>0</u>	<u>55,602</u>	<u>64,894</u>	-0.143
Total revenues	7,540,198	7,539,065	327,213	280,698	7,867,411	7,819,763	0.006
Program expenses:							
Governmental activities:							
Instruction	4,558,468	4,394,705	0	0	4,558,468	4,394,705	0.037
Support services	1,916,753	1,985,781	0	0	1,916,753	1,985,781	-0.035
Non-instructional program	26,036	3,895	309,403	299,103	335,439	302,998	0.107
Other expenses	<u>584,177</u>	<u>651,270</u>	<u>0</u>	<u>0</u>	<u>584,177</u>	<u>651,270</u>	-0.103
Total expenses	7,085,434	7,035,651	309,403	299,103	7,394,837	7,334,754	0.008
Change in net assets	454,764	503,414	17,810	-18,405	472,574	485,009	-0.026

## Governmental Activities

Revenues for governmental activities were \$7,540,198 and expenses were \$7,085,434. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

Property tax and unrestricted state grants account for 64% of total revenue. The District's expenses primarily relate to instruction and support services, which account for 91% of the total expenses.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5  
Total and Net Cost of  
Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	4,558,468	3,198,019
Support Services	1,916,753	1,911,044
Non-instructional programs	26,036	26,036
Other expenses	<u>584,177</u>	<u>314,507</u>
Totals:	7,085,434	5,449,606

- The cost financed by users of the District's programs was \$1,030,564.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$605,264.
- The net cost of governmental activities was financed in part with \$2,097,151 in property tax, \$2,693,955 in state foundation aid and \$73,088 in interest income.

## Business-Type Activities

Revenues of the District's business-type activities were \$327,213 and expenses were \$309,403. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2006, the District generated sufficient revenues in the School Nutrition Fund to meet expenses. If costs for the School Nutrition Fund increase in the future, the district will need to increase meal prices to offset them.

## **Financial Analysis of the District's Funds**

As previously noted, the Hudson Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,403,977 compared to \$1,524,717 in Fiscal Year 2005. The General Fund balance for Fiscal Year 2006 was \$316,339 compared to \$493,000 for Fiscal Year 2005.

### **Governmental Fund Highlights**

- The decrease in the combined fund balances is primarily the result of decreases in the General Fund balance and the district will need to carefully monitor future General Fund expenditures so that they match or are less than anticipated revenues.

### **Budgetary Highlights**

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its private-purpose trust and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Over the course of the year, the District amended its annual operating budget one time to ensure that changes in coding of expenditures did not result in overspending any category, and that possible expenditures for the all-weather track project would be budgeted. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison as presented in the required supplemental information section of this report.

### **Legal Budgetary Highlights**

The District's total actual receipts were \$144,140 more than the total budgeted receipts, a variance of less than 2%. The District budget is an accurate representation of estimated revenue.

Total expenditures were \$736,734 less than budgeted due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at or near the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year.

## Capital Asset and Debt Administration

### Capital Assets

At June 30, 2006, the District had invested \$7,645,650, net of accumulated depreciation of \$4,359,499, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year totaled \$259,129.

The original cost of the District's capital assets was \$12,005,149. Governmental funds account for \$11,830,704 leaving \$174,445 in the Proprietary, School Nutrition Fund.

Figure A-6  
Capital Assets, net of Depreciation

	Governmental Activities	Business Type Activities	Total District
Land	116,782	0	116,782
Construction in progress	0	0	0
Buildings	6,814,331	0	6,814,331
Improvements other than buildings	520,287	0	520,287
Furniture and equipment	<u>167,888</u>	<u>26,362</u>	<u>194,250</u>
Totals	7,619,288	26,362	7,645,650

### Long-Term Liabilities

At June 30, 2006, the District had \$3,607,083 in general obligation and other long-term liabilities outstanding. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

Figure A-7  
Outstanding  
Long-term  
Obligations

	Total District 2006
General obligation bonds	2,425,000
Local option sales and service tax revenue bonds	1,000,000
Capital loan notes	0
Early retirement	<u>182,083</u>
Totals:	3,607,083

## **Factors Bearing on the District's Future**

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

The District boundaries to the north reach into the City of Cedar Falls. The Cedar Falls Industrial Park and other development are rapidly moving south. Approximately 10% of resident students live in a mobile home park near this development. It is likely that at some future date the mobile home park may become more valuable as a commercial or industrial development site. The loss of a significant number of students negatively impacts district revenue.

The district experienced a decline in enrollment in 2004-2005 but a slight increase in enrollment for 2005-2006. There is a group of investors working on a housing development targeted at moderate cost homes for the community. If the development becomes reality, the district should experience an increase in enrollment.

With the end of Fiscal Year 2006, the District's master contract with the Hudson Education Association entered the last year of a two-year agreement. Costs associated with this contract in excess of allowable growth in state funding had an adverse effect on the District's General Fund budget and related fund balance. The District reduced staff during Fiscal Year 2005 in anticipation of reduced revenues for the upcoming budget year. Reductions were made in classroom teachers, teacher associates, and custodial workers. None of the reductions resulted in unemployment liabilities. A one-year early retirement incentive program was made available for Fiscal Year 2006 and three certified staff members took advantage of this program allowing the District to hire replacements at lower salaries.

The District receives revenue from the Voted Physical Plant and Equipment Levy that can be used for upgrading facilities and purchasing equipment. Community contributions used in concert with some of the voted PPEL funds made possible the construction of an all weather track in 2006.

## **Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lois Scally, District Secretary/Business Manager, Hudson Community School District, 136 S. Washington Street, Hudson, Iowa, 50643.



## Basic Financial Statements

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2006

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 2,092,714	\$ 10,474	\$ 2,103,188
Receivables:			
Property tax:			
Current year	16,530	-	16,530
Succeeding year	1,890,000	-	1,890,000
Income surtax	249,805	-	249,805
Accounts	22,530	-	22,530
Due from other governments	116,651	-	116,651
Inventories	-	5,352	5,352
Restricted ISCAP assets (note 5):			
Investments	823,418	-	823,418
Accrued interest receivable	6,664	-	6,664
Capital assets, net of accumulated depreciation (note 6)	7,619,288	26,362	7,645,650
<b>Total assets</b>	<b>12,837,600</b>	<b>42,188</b>	<b>12,879,788</b>
<b>Liabilities</b>			
Accounts payable	45,386	-	45,386
Salaries and benefits payable	594,197	10,984	605,181
Accrued interest payable	30,127	-	30,127
Incurred but not reported claims	42,000	-	42,000
ISCAP warrants payable (note 5)	823,000	-	823,000
ISCAP accrued interest payable (note 5)	6,389	-	6,389
Deferred revenue:			
Succeeding year property tax	1,890,000	-	1,890,000
Other	-	3,195	3,195
Long-term liabilities (note 7):			
Portion due within one year:			
Early retirement	18,481	-	18,481
Bonds payable	510,000	-	510,000
Portion due after one year:			
Early retirement	163,602	-	163,602
Bonds payable	2,915,000	-	2,915,000
<b>Total liabilities</b>	<b>7,038,182</b>	<b>14,179</b>	<b>7,052,361</b>

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 4,612,262	\$ 26,362	\$ 4,638,624
Restricted for:			
Other special revenue purposes	88,833	-	88,833
Debt service	478,038	-	478,038
Capital projects	-	-	-
Unrestricted	<u>620,285</u>	<u>1,647</u>	<u>621,932</u>
Total net assets	<u>\$ 5,799,418</u>	<u>\$ 28,009</u>	<u>\$ 5,827,427</u>

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
		Services		
Governmental Activities:				
Instruction:				
Regular instruction	\$ 3,106,992	\$ 672,295	\$ 270,262	\$ -
Special instruction	698,105	51,526	37,251	-
Other instruction	753,371	306,743	22,372	-
	<u>4,558,468</u>	<u>1,030,564</u>	<u>329,885</u>	<u>-</u>
Support services:				
Student services	330,175	-	2,816	-
Instructional staff services	213,238	-	-	-
Administration services	672,060	-	-	-
Operation and maintenance of plant services	523,556	-	-	-
Transportation services	177,724	-	2,893	-
	<u>1,916,753</u>	<u>-</u>	<u>5,709</u>	<u>-</u>
Non-instructional programs	<u>26,036</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	-	-	-	59,828
Long-term debt interest and fiscal charges	143,710	-	-	-
AEA flowthrough	209,842	-	209,842	-
Depreciation (unallocated) *	230,625	-	-	-
	<u>584,177</u>	<u>-</u>	<u>209,842</u>	<u>59,828</u>
Total governmental activities	7,085,434	1,030,564	545,436	59,828
Business-Type Activities:				
Non-instructional programs:				
Food service operations	<u>309,403</u>	<u>244,313</u>	<u>82,668</u>	<u>-</u>
Total	<u>\$ 7,394,837</u>	<u>\$ 1,274,877</u>	<u>\$ 628,104</u>	<u>\$ 59,828</u>

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (2,164,435)	\$ -	\$ (2,164,435)
(609,328)	-	(609,328)
(424,256)	-	(424,256)
<u>(3,198,019)</u>	<u>-</u>	<u>(3,198,019)</u>
(327,359)	-	(327,359)
(213,238)	-	(213,238)
(672,060)	-	(672,060)
(523,556)	-	(523,556)
(174,831)	-	(174,831)
<u>(1,911,044)</u>	<u>-</u>	<u>(1,911,044)</u>
<u>(26,036)</u>	<u>-</u>	<u>(26,036)</u>
59,828	-	59,828
(143,710)	-	(143,710)
-	-	-
<u>(230,625)</u>	<u>-</u>	<u>(230,625)</u>
<u>(314,507)</u>	<u>-</u>	<u>(314,507)</u>
(5,449,606)	-	(5,449,606)
-	17,578	17,578
<u>(5,449,606)</u>	<u>17,578</u>	<u>(5,432,028)</u>

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Functions/Programs

---

General Revenues:

Property tax levied for:

General purposes

Capital outlay

Income surtax

Local option sales and services tax

Unrestricted state grants

Unrestricted investment earnings

Other

Total general revenues

Change in net assets

Net assets beginning of year

Net assets end of year

\* = This amount excludes the depreciation that is included  
in the direct expense of the various programs.

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ 1,862,441	\$ -	\$ 1,862,441
234,710	-	234,710
272,286	-	272,286
681,304	-	681,304
2,724,939	-	2,724,939
73,088	232	73,320
55,602	-	55,602
5,904,370	232	5,904,602
454,764	17,810	472,574
5,344,654	10,199	5,354,853
\$ 5,799,418	\$ 28,009	\$ 5,827,427

HUDSON COMMUNITY SCHOOL DISTRICT

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and pooled investments	\$ 903,783	\$ 508,165	\$ 475,808	\$ 1,887,756
Receivables:				
Property tax:				
Current year	13,804	-	2,726	16,530
Succeeding year	1,564,000	-	326,000	1,890,000
Income surtax	249,805	-	-	249,805
Interfund receivable (note 3)	-	-	7,870	7,870
Accounts	21,930	-	-	21,930
Due from other governments	12,344	-	104,307	116,651
Restricted ISCAP assets (note 5):				
Investments	823,418	-	-	823,418
Accrued interest receivable	6,664	-	-	6,664
Total assets	<u>\$ 3,595,748</u>	<u>\$ 508,165</u>	<u>\$ 916,711</u>	<u>\$ 5,020,624</u>



HUDSON COMMUNITY SCHOOL DISTRICT

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2006

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 42,018	\$ -	\$ 3,368	\$ 45,386
Salaries and benefits payable	594,197	-	-	594,197
Interfund payable (note 3)	-	-	7,870	7,870
ISCAP warrants payable (note 5)	823,000	-	-	823,000
ISCAP accrued interest payable (note 5)	6,389	-	-	6,389
Deferred revenue:				
Succeeding year property tax	1,564,000	-	326,000	1,890,000
Other	249,805	-	-	249,805
Total liabilities	<u>3,279,409</u>	<u>-</u>	<u>337,238</u>	<u>3,616,647</u>
Fund balance:				
Reserved for:				
Debt service	-	508,165	-	508,165
Unreserved:				
Designated for early retirement	-	-	34,641	34,641
Undesignated, reported in nonmajor Special Revenue Funds	-	-	126,858	126,858
Undesignated	316,339	-	417,974	734,313
Total fund balances	<u>316,339</u>	<u>508,165</u>	<u>579,473</u>	<u>1,403,977</u>
Total liabilities and fund balances	<u>\$ 3,595,748</u>	<u>\$ 508,165</u>	<u>\$ 916,711</u>	<u>\$ 5,020,624</u>

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 June 30, 2006

Total fund balances of governmental funds	\$ 1,403,977
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	7,619,288
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	249,805
The balance of the Internal Service Fund is included with the governmental activities due to the integral nature of the fund in relation to governmental activities.	163,558
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(30,127)
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(3,607,083)</u>
Net assets of governmental activities	<u>\$ 5,799,418</u>

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2006

	General	Debt Service	Nonmajor Governmental Funds	Total
Revenues:				
Local sources:				
Local tax	\$ 2,021,102	\$ -	\$ 1,005,621	\$ 3,026,723
Tuition	677,476	-	-	677,476
Other	138,319	19,357	358,165	515,841
State sources	3,159,368	-	24,725	3,184,093
Federal sources	112,791	-	-	112,791
Total revenues	6,109,056	19,357	1,388,511	7,516,924
Expenditures:				
Current:				
Instruction:				
Regular instruction	3,046,972	-	24,410	3,071,382
Special instruction	706,136	-	-	706,136
Other instruction	450,876	-	302,495	753,371
	4,203,984	-	326,905	4,530,889
Support services:				
Student services	327,342	-	2,833	330,175
Instructional staff services	213,238	-	-	213,238
Administration services	658,598	-	22,525	681,123
Operation and maintenance of plant services	496,021	-	46,406	542,427
Transportation services	157,455	-	13,421	170,876
	1,852,654	-	85,185	1,937,839
Non-instructional programs	20,320	-	5,716	26,036
Other expenditures:				
Facilities acquisition	-	-	285,841	285,841
Long term debt:				
Principal	-	500,000	-	500,000
Interest and fiscal charges	-	148,300	-	148,300
AEA flowthrough	209,842	-	-	209,842
	209,842	648,300	285,841	1,143,983
Total expenditures	6,286,800	648,300	703,647	7,638,747
Excess (deficiency) of revenues over (under) expenditures	(177,744)	(628,943)	684,864	(121,823)

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2006

	General	Debt Service	Nonmajor Governmental Funds	Total
Other financing sources (uses):				
Sale of equipment	\$ 336	\$ -	\$ -	\$ 336
Compensation for loss of capital assets	747	-	-	747
Interfund transfers in (note 4)	-	1,049,061	596,192	1,645,253
Interfund transfers out (note 4)	-	(568,010)	(1,077,243)	(1,645,253)
Total other financing sources (uses)	<u>1,083</u>	<u>481,051</u>	<u>(481,051)</u>	<u>1,083</u>
Net change in fund balances	(176,661)	(147,892)	203,813	(120,740)
Fund balances beginning of year	<u>493,000</u>	<u>656,057</u>	<u>375,660</u>	<u>1,524,717</u>
Fund balances end of year	<u>\$ 316,339</u>	<u>\$ 508,165</u>	<u>\$ 579,473</u>	<u>\$ 1,403,977</u>

See notes to financial statements.

## HUDSON COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ (120,740)

Amounts reported for governmental activities in the Statement of Activities  
are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Expenditures for capital assets	\$ 330,970	
Depreciation expense	<u>(251,555)</u>	79,415

Income surtax revenue not received until several months after the District's fiscal year ends is not considered available revenue in the governmental funds and is deferred. It is, however, recorded as revenue in the Statement of Activities. 22,191

The increase in net assets of the Internal Service Fund represents an overcharge to the funds serviced. Therefore, expenses are adjusted accordingly for the Statement of Activities. 56,880

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 500,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. 4,590

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (87,572)

Change in net assets of governmental activities \$ 454,764

See notes to financial statements.

## HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS TYPES

June 30, 2006

	Nonmajor Enterprise Fund	Internal Service Funds
	<u>          </u>	<u>          </u>
Assets		
Cash and cash equivalents	\$ 10,474	\$ 204,958
Accounts receivable	-	600
Inventories	5,352	-
Capital assets, net of accumulated depreciation	26,362	-
Total assets	<u>42,188</u>	<u>205,558</u>
Liabilities		
Salaries and benefits payable	10,984	-
Incurred but not reported claims	-	42,000
Deferred revenue:		
Other	3,195	-
Total liabilities	<u>14,179</u>	<u>42,000</u>
Net Assets		
Invested in capital assets, net of related debt	26,362	-
Unrestricted	<u>1,647</u>	<u>163,558</u>
Total net assets	<u>\$ 28,009</u>	<u>\$ 163,558</u>

See notes to financial statements.

## HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 PROPRIETARY FUNDS  
 Year Ended June 30, 2006

	Nonmajor Enterprise Fund	Internal Service Funds
	<u>          </u>	<u>          </u>
Operating revenues:		
Local sources:		
Charges for services	\$ 244,313	\$ 456,183
	<u>          </u>	<u>          </u>
Operating expenses:		
Non-instructional programs:		
Food service operations:		
Salaries	102,640	-
Benefits	34,684	-
Purchased services	2,734	405,460
Supplies	161,771	-
Depreciation	7,574	-
	<u>309,403</u>	<u>405,460</u>
Operating income (loss)	<u>(65,090)</u>	<u>50,723</u>
Non-operating revenues:		
Interest on investments	232	6,157
State sources	2,991	-
Federal sources	79,677	-
Total non-operating revenues	<u>82,900</u>	<u>6,157</u>
Change in net assets	17,810	56,880
Net assets beginning of year	<u>10,199</u>	<u>106,678</u>
Net assets end of year	<u>\$ 28,009</u>	<u>\$ 163,558</u>

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended June 30, 2006

	Nonmajor Enterprise Fund	Internal Service Funds
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 223,078	\$ -
Cash received from miscellaneous operating activities	21,235	456,183
Cash payments to employees for services	(138,356)	-
Cash payments to suppliers for goods or services	(153,409)	(414,060)
Net cash provided by (used in) operating activities	(47,452)	42,123
Cash flows from non-capital financing activities:		
(Decrease) in warrants issued over bank balance	(2,782)	-
(Decrease) in due to other funds	(11,000)	-
State grants received	2,991	-
Federal grants received	68,484	-
Net cash provided by non-capital financing activities	57,693	-
Cash flows from investing activities:		
Interest on investments	232	6,157
Net increase in cash and cash equivalents	10,473	48,280
Cash and cash equivalents beginning of year	1	156,678
Cash and cash equivalents end of year	\$ 10,474	\$ 204,958



HUDSON COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended June 30, 2006

	Nonmajor Enterprise Fund	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (65,090)	\$ 50,723
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	7,574	-
Commodities used	11,193	-
(Increase) in accounts receivable	-	(600)
(Increase) in inventories	(206)	-
(Decrease) in salaries and benefits payable	(1,032)	-
Increase in deferred revenues	109	-
(Decrease) in incurred but not reported claims	-	(8,000)
Net cash provided by (used in) operating activities	\$ <u>(47,452)</u>	\$ <u>42,123</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received \$11,193 of federal commodities.

See notes to financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
June 30, 2006

	<u>Private Purpose Trust</u>
	<u>Scholarship</u>
Assets:	
Cash and pooled investments	\$ <u>71,150</u>
Liabilities:	
None	<u>-</u>
Net assets:	
Reserved for scholarships	\$ <u>71,150</u>
See notes to financial statements.	

HUDSON COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 Year Ended June 30, 2006

	Private Purpose Trust
	<u>Scholarship</u>
Additions:	
Local sources:	
Interest	\$ <u>2,050</u>
Deductions:	
Support services:	
Scholarships awarded	<u>2,050</u>
Change in net assets	-
Net assets beginning of year	<u>71,150</u>
Net assets end of year	\$ <u><u>71,150</u></u>
See notes to financial statements.	

## HUDSON COMMUNITY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

June 30, 2006

#### Note 1. Summary of Significant Accounting Policies

Hudson Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Hudson, Iowa, and agricultural territory in Blackhawk County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

##### A. Reporting Entity

For financial reporting purposes, Hudson Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. Hudson Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Blackhawk County Assessor's Conference Board.

##### B. Basis of Presentation

District-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt.

The District's proprietary funds are the Enterprise, School Nutrition Fund, used to account for the food service operations of the District, and the Internal Service Funds, Self-Insured Health Plan and Self-Insured Dental Plan, used to account for the District's self-funding of the health and dental plans.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements with restrictions of income earned to be used to benefit individuals through scholarship awards.

## HUDSON COMMUNITY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

All proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the statement of net assets and the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust, which is valued at amortized cost, and non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in Governmental Funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Current year property tax receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Capital Assets – Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 5,000
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund Equipment	500
Other furniture and equipment	5,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings	50 years
Improvements other than buildings	20-30 years
Furniture and equipment	5-20 years

Salaries and Benefits Payable – Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, the succeeding year property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.



HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation and sick leave benefits. Employees are not paid for unused vacation and sick leave benefits per District policy.

Long-term Liabilities – In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Invested in capital assets, net of related debt – In the District-wide Statement of Net Assets, the net asset balance invested in capital assets, net of related debt is equal to the capital assets balances, including restricted capital assets, less accumulated depreciation and the outstanding balances of any bonds, notes, or other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – In the District-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted in any of the functions.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 2. Cash and Pooled Investments (continued)

At June 30, 2006, the District had the following investments:

	Amortized Cost
Goldman Sachs Treasury Obligation Fund	\$ 416,714
Iowa Schools Joint Investment Trust, Diversified Portfolio	<u>1,580,855</u>
	<u>\$ 1,997,569</u>

The investments in the Iowa Schools Joint Investment Trust, Diversified Portfolio are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investments in the Goldman Sachs Treasury Obligation Fund are recorded at fair value.

Interest Rate Risk – The District’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit Risk – The investments in the Iowa Schools Joint Investment Trust and in the Goldman Sachs Treasury Obligation Fund were both rated Aaa by Moody’s Investors Service.

Note 3. Interfund Payables/Receivables

Details of the District’s interfund payables and receivables at June 30, 2006, are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Projects	Special Revenue, Physical Plant and Equipment Levy	\$ <u>7,870</u>

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Capital Projects	Debt Service	\$ 568,010
Special Revenue:		
Physical Plant and Equipment Levy	Capital Projects	28,182
Debt Service	Capital Projects	<u>1,049,061</u>
Total		<u>\$ 1,645,253</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

Note 5. Iowa Schools Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2005-06B	1/26/2006	1/26/2007	\$ 321,117	\$ 6,507	\$ 320,000	\$ 6,200
2006-07A	6/28/2006	6/28/2007	502,301	157	503,000	189
Total			<u>\$ 823,418</u>	<u>\$ 6,664</u>	<u>\$ 823,000</u>	<u>\$ 6,389</u>

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 5. Iowa Schools Cash Anticipation Program (ISCAP) (continued)

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

<u>Series</u>	<u>Balance Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance End of Year</u>
2005-06A	\$ <u>-</u>	\$ <u>135,000</u>	\$ <u>135,000</u>	\$ <u>-</u>

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2005-06B	4.500%	4.772%
2006-07A	4.500%	5.676%

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 6. Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 116,782	\$ -	\$ -	\$ 116,782
Construction in progress	144,326	290,750	435,076	-
Total capital assets not being depreciated	<u>261,108</u>	<u>290,750</u>	<u>435,076</u>	<u>116,782</u>
Capital assets being depreciated:				
Buildings	10,436,164	-	-	10,436,164
Improvements other than buildings	114,341	435,076	-	549,417
Furniture and equipment	700,121	40,220	12,000	728,341
Total capital assets being depreciated	<u>11,250,626</u>	<u>475,296</u>	<u>12,000</u>	<u>11,713,922</u>
Less accumulated depreciation for:				
Buildings	3,396,371	225,462	-	3,621,833
Improvements other than buildings	23,967	5,163	-	29,130
Furniture and equipment	551,523	20,930	12,000	560,453
Total accumulated depreciation	<u>3,971,861</u>	<u>251,555</u>	<u>12,000</u>	<u>4,211,416</u>
Total capital assets being depreciated, net	<u>7,278,765</u>	<u>223,741</u>	<u>-</u>	<u>7,502,506</u>
Governmental activities capital assets, net	<u>\$ 7,539,873</u>	<u>\$ 514,491</u>	<u>\$ 435,076</u>	<u>\$ 7,619,288</u>

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 6. Capital Assets (continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 174,445	\$ -	\$ -	\$ 174,445
Less accumulated depreciation	140,509	7,574	-	148,083
Business-type activities capital assets, net	<u>\$ 33,936</u>	<u>\$ (7,574)</u>	<u>\$ -</u>	<u>\$ 26,362</u>

Depreciation expense was charged by the District to the following functions:

Governmental activities:

Instruction:

Regular

\$ 4,203

Support services:

Administration

2,889

Operation and maintenance of plant services

6,990

Transportation

6,848

20,930

Unallocated depreciation

230,625

Total governmental activities depreciation expense

\$ 251,555

Business-type activities:

Food service operations

\$ 7,574

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 7. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Early Retirement	General Obligation Bonds	Local Option Sales and Services Tax Revenue Bonds	Total
Balance beginning of year	\$ 94,511	\$ 2,700,000	\$ 1,225,000	\$ 4,019,511
Additions	106,053	-	-	106,053
Reductions	18,481	275,000	225,000	518,481
Balance end of year	<u>\$ 182,083</u>	<u>\$ 2,425,000</u>	<u>\$ 1,000,000</u>	<u>\$ 3,607,083</u>
Due within one year	<u>\$ 18,481</u>	<u>\$ 285,000</u>	<u>\$ 225,000</u>	<u>\$ 528,481</u>

Early Retirement

The District offered a voluntary early retirement plan to its employees for the year ended June 30, 2006.

Eligible employees are at least age fifty-five and must have completed fifteen years of service to the District. Employees must complete an application which is required to be approved by the Board of Education.

The early retirement incentive for certified employees is equal to 110% of the difference between the current salary and a teacher's base salary, to be paid over a three year period. The incentive for classified employees is health insurance paid by the District at the single rate in effect when the employee retired for a period of three years. The District is also paying early retirement benefits under plans adopted in previous years. Details of these plans are available upon request of the District administrative office.

Early retirement benefits paid during the year ended June 30, 2006, totaled \$18,481. The cost of early retirement payments is recorded as a long-term liability of the Governmental Activities in the District-wide financial statements.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 7. Long-Term Liabilities (continued)

General Obligation Bonds Payable

Details of the District's June 30, 2006, general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2007	3.000 %	\$ 285,000	\$ 88,138	\$ 373,138
2008	3.250	295,000	79,587	374,587
2009	3.450	305,000	70,000	375,000
2010	3.650	320,000	59,478	379,478
2011	3.750	335,000	47,798	382,798
2012	3.900	345,000	35,235	380,235
2013	4.000	360,000	21,780	381,780
2014	4.100	180,000	7,380	187,380
		<u>\$ 2,425,000</u>	<u>\$ 409,396</u>	<u>\$ 2,834,396</u>

School Infrastructure Sales and Services Tax Revenue Bonds

Details of the District's June 30, 2006, school infrastructure sales and services tax revenue bonds indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2007	4.500 %	\$ 225,000	\$ 41,250	\$ 266,250
2008	4.500	250,000	30,563	280,563
2009	4.750	250,000	19,000	269,000
2010	4.750	275,000	6,531	281,531
		<u>\$ 1,000,000</u>	<u>\$ 97,344</u>	<u>\$ 1,097,344</u>

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. The debt, however, is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds include the following provisions:

The bonds will only be redeemed from the future earnings of the local option sales tax revenues received by the District and the bond holders hold a lien on the future revenues received.



# HUDSON COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

### Note 7. Long-Term Liabilities (continued)

#### School Infrastructure Sales and Services Tax Revenue Bonds (continued)

Bonds maturing after September 1, 2007, may be called for redemption by the issuer and paid before maturity on said date or any date thereafter.

\$170,000 of the proceeds from the bond issue has been placed in a reserve fund with a trustee. The reserve fund is part of the District's Debt Service Fund.

All proceeds from the local option sales and services tax shall be placed in a sinking fund with a trustee. Money in the sinking fund shall be used to pay the interest and principal on the bonds. Surplus monies in the sinking fund may be transferred to the capital projects fund to be used for any lawful purpose. The sinking fund is part of the Debt Service Fund.

### Note 8. Operating Lease

The District has entered into operating leases for three school buses. The first lease requires three annual payments of \$8,103 with a balloon payment of \$34,250 in March, 2008. The second lease is for six months, with a possible purchase in July, 2006 for a fair value payment of \$30,007. The third lease expires in October, 2006 and all required payments on this lease have been made as of June 30, 2006. Details of the District's future minimum lease payments are as follows:

Year Ending June 30,	Minimum Lease Payments
2007	\$ 38,110
2008	<u>34,250</u>
	<u>\$ 72,360</u>

### Note 9. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$214,307, \$209,325, and \$204,799 respectively, equal to the required contributions for each year.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 10. Risk Management

The District has a self-funded health and dental insurance plan. The District purchases commercial insurance to provide for aggregate stop-loss coverage for the excess of 125% of estimated claims for the plan year and specific stop-loss reinsurance coverage for the excess of \$25,000 in insured claims for any one covered individual. Settled claims have not exceeded the commercial coverage for the past three fiscal years.

Payments are made to the plan based on actuarial estimates of amounts needed to pay prior and current year claims and to establish a reserve for incurred but unpaid claims. The reserve was \$163,558 at June 30, 2006 and is recorded in the Internal Service Fund. The incurred but not reported claims of \$42,000 are reported as liabilities at June 30, 2006.

Hudson Community School District is exposed to various risks of loss related to torts: theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 11. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$209,842 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 12. Financial Condition

The Special Revenue Fund, Physical Plant and Equipment Levy, reported as a nonmajor governmental fund in the fund statements, had an unreserved, undesignated deficit balance of \$4,294 at June 30, 2006.

## Required Supplementary Information

HUDSON COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances –  
Budget and Actual (Cash Basis) – All Governmental Funds  
and Proprietary Fund  
Required Supplementary Information  
Year Ended June 30, 2006

	Governmental Funds - Actual	Proprietary Fund - Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
<b>RECEIPTS:</b>						
Local sources	\$ 4,250,297	\$ 233,545	\$ 4,483,842	\$ 4,324,521	\$ 4,324,521	\$ 159,321
State sources	3,184,093	2,991	3,187,084	3,178,475	3,178,475	8,609
Federal sources	120,533	79,677	200,210	224,000	224,000	(23,790)
Total receipts	7,554,923	316,213	7,871,136	7,726,996	7,726,996	144,140
<b>DISBURSEMENTS:</b>						
Instruction	4,530,548	-	4,530,548	4,666,278	4,750,000	219,452
Support services	1,979,781	-	1,979,781	2,113,052	2,113,052	133,271
Non-instructional programs	20,320	302,958	323,278	281,272	325,000	1,722
Other expenditures	1,267,711	-	1,267,711	1,198,849	1,650,000	382,289
Total disbursements	7,798,360	302,958	8,101,318	8,259,451	8,838,052	736,734
Excess (deficiency) of receipts over (under) disbursements	(243,437)	13,255	(230,182)	(532,455)	(1,111,056)	880,874
Other financing sources, net	1,083	-	1,083	1,500	1,500	(417)
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(242,354)	13,255	(229,099)	(530,955)	(1,109,556)	880,457
Balance beginning of year	2,130,110	(2,781)	2,127,329	1,985,693	1,985,693	141,636
Balance end of year	\$ 1,887,756	\$ 10,474	\$ 1,898,230	\$ 1,454,738	\$ 876,137	\$ 1,022,093

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule – Budget to GAAP Reconciliation  
Required Supplementary Information  
Year Ended June 30, 2006

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 7,554,923	\$ (37,999)	\$ 7,516,924
Expenditures	7,798,360	(159,613)	7,638,747
Net	(243,437)	121,614	(121,823)
Other financing sources (uses)	1,083	-	1,083
Beginning fund balances	2,130,110	605,393	1,524,717
Ending fund balances	<u>\$ 1,887,756</u>	<u>\$ 727,007</u>	<u>\$ 1,403,977</u>
	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjust- ments	Accrual Basis
Revenues	\$ 316,213	\$ 11,000	\$ 327,213
Expenses	302,958	6,445	309,403
Net	13,255	4,555	17,810
Beginning net assets	(2,781)	12,980	10,199
Ending net assets	<u>\$ 10,474</u>	<u>\$ 17,535</u>	<u>\$ 28,009</u>

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except internal service, private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$578,601.

During the year ended June 30, 2006, disbursements did not exceed amounts budgeted in any of the four functions.

## Other Supplementary Information

## HUDSON COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2006

	Special Revenue				
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Capital Projects	Total
<b>Assets</b>					
Cash and pooled investments	\$ 76,199	\$ 92,201	\$ 1,611	\$ 305,797	\$ 475,808
Receivables:					
Property tax:					
Current year	761	-	1,965	-	2,726
Succeeding year	121,000	-	205,000	-	326,000
Interfund receivable	-	-	-	7,870	7,870
Due from other governments	-	-	-	104,307	104,307
<b>Total assets</b>	<b>\$ 197,960</b>	<b>\$ 92,201</b>	<b>\$ 208,576</b>	<b>\$ 417,974</b>	<b>\$ 916,711</b>
<b>Liabilities and Fund Equity</b>					
<b>Liabilities:</b>					
Accounts payable	\$ -	\$ 3,368	\$ -	\$ -	\$ 3,368
Interfund payable	-	-	7,870	-	7,870
Deferred revenue:					
Succeeding year property tax	121,000	-	205,000	-	326,000
<b>Total liabilities</b>	<b>121,000</b>	<b>3,368</b>	<b>212,870</b>	<b>-</b>	<b>337,238</b>
<b>Fund equity:</b>					
Fund balances:					
Unreserved:					
Designated for early retirement	34,641	-	-	-	34,641
Undesignated	42,319	88,833	(4,294)	417,974	544,832
<b>Total fund equity</b>	<b>76,960</b>	<b>88,833</b>	<b>(4,294)</b>	<b>417,974</b>	<b>579,473</b>
<b>Total liabilities and fund equity</b>	<b>\$ 197,960</b>	<b>\$ 92,201</b>	<b>\$ 208,576</b>	<b>\$ 417,974</b>	<b>\$ 916,711</b>

See accompanying independent auditor's report.



HUDSON COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
Year Ended June 30, 2006

	Special Revenue				
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Capital Projects	Total
Revenues:					
Local sources:					
Local tax	\$ 89,810	\$ -	\$ 234,507	\$ 681,304	\$ 1,005,621
Other	6,049	308,372	972	42,772	358,165
State sources	78	-	203	24,444	24,725
Total revenues	95,937	308,372	235,682	748,520	1,388,511
Expenditures:					
Current:					
Instruction:					
Regular instruction	24,410	-	-	-	24,410
Other instruction	-	302,495	-	-	302,495
Support services:					
Student services	2,833	-	-	-	2,833
Administration services	2,833	-	19,692	-	22,525
Operation and maintenance of plant services	46,406	-	-	-	46,406
Transportation services	13,421	-	-	-	13,421
Non instructional programs	5,716	-	-	-	5,716
Other expenditures:					
Facilities acquisition	-	-	237,755	48,086	285,841
Total expenditures	95,619	302,495	257,447	48,086	703,647
Excess (deficiency) of revenues over (under) expenditures	318	5,877	(21,765)	700,434	684,864
Other financing sources (uses):					
Interfund transfers in	-	-	28,182	568,010	596,192
Interfund transfers out	-	-	-	(1,077,243)	(1,077,243)
Total other financing sources (uses)	-	-	28,182	(509,233)	(481,051)

HUDSON COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
Year Ended June 30, 2006

	Special Revenue				
	Management	Student	Physical	Capital	
	Levy	Activity	Plant and	Projects	Total
			Equipment		
			Levy		
Excess (deficiency) of revenues over (under) expenditures and other financing uses	\$ 318	\$ 5,877	\$ 6,417	\$ 191,201	\$ 203,813
Fund balances beginning of year	76,642	82,956	(10,711)	226,773	375,660
Fund balances end of year	\$ 76,960	\$ 88,833	\$ (4,294)	\$ 417,974	\$ 579,473

See accompanying independent auditor's report.

## HUDSON COMMUNITY SCHOOL DISTRICT

COMBINING STATEMENT OF NET ASSETS  
INTERNAL SERVICES FUNDS

June 30, 2006

	Self-Insured Health Plan	Self-Insured Dental Plan	Total
Assets			
Cash and pooled investments	\$ 151,736	\$ 53,222	\$ 204,958
Receivables:			
Accounts	-	600	600
Total assets	151,736	53,822	205,558
Liabilities			
Incurred but not reported claims	39,480	2,520	42,000
Net Assets			
Unrestricted	\$ 112,256	\$ 51,302	\$ 163,558

See accompanying independent auditor's report.

## HUDSON COMMUNITY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS  
INTERNAL SERVICE FUNDS

June 30, 2006

	Self-Insured Health Plan	Self-Insured Dental Plan	Total
Operating revenue:			
Local sources:			
Other local sources:			
Services	\$ 427,107	\$ 29,076	\$ 456,183
Operating expenses:			
Non-instructional programs:			
Benefits	377,298	26,187	403,485
Other	1,725	250	1,975
Total expenses	379,023	26,437	405,460
Operating income	48,084	2,639	50,723
Non-operating revenue:			
Interest income	4,248	1,909	6,157
Change in net assets	52,332	4,548	56,880
Net assets beginning of year	59,924	46,754	106,678
Net assets end of year	\$ 112,256	\$ 51,302	\$ 163,558

See accompanying independent auditor's report.

## HUDSON COMMUNITY SCHOOL DISTRICT

## COMBINING STATEMENT OF CASH FLOWS

## INTERNAL SERVICE FUNDS

Year Ended June 30, 2006

	Self-Insured Health Plan	Self-Insured Dental Plan	Total
Cash flows from operating activities:			
Cash received from local sources	\$ 427,107	\$ 29,076	\$ 456,183
Cash payments to suppliers for goods or services	(386,386)	(27,674)	(414,060)
Net cash provided by operating activities	<u>40,721</u>	<u>1,402</u>	<u>42,123</u>
Cash flows from investing activities:			
Interest on investments	<u>4,248</u>	<u>1,909</u>	<u>6,157</u>
Net increase in cash and cash equivalents	44,969	3,311	48,280
Cash and cash equivalents at beginning of year	<u>106,767</u>	<u>49,911</u>	<u>156,678</u>
Cash and cash equivalents at end of year	<u>\$ 151,736</u>	<u>\$ 53,222</u>	<u>\$ 204,958</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 48,084	\$ 2,639	\$ 50,723
Adjustments to reconcile operating income to net cash provided by operating activities:			
(Increase) in accounts receivable	-	(600)	(600)
Decrease in incurred but not reported claims	<u>(7,363)</u>	<u>(637)</u>	<u>(8,000)</u>
Net cash provided by operating activities	<u>\$ 40,721</u>	<u>\$ 1,402</u>	<u>\$ 42,123</u>

See accompanying independent auditor's report.

HUDSON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
Year Ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Speech	\$ -	\$ -	\$ 50	\$ (50)
Vocal Music	586	2,426	2,413	599
Vocal Music Trip	2,135	16,089	18,514	(290)
Physics Club	496	1,845	1,372	969
Photography	33	-	-	33
National Honor Society	171	1,025	816	380
Instrumental Music	-	3,269	3,069	200
Instrumental Music Trip	1,077	391	-	1,468
Athletic Adm.	1,487	50,553	50,369	1,671
Track	(677)	20,139	19,430	32
Girls Track	-	4,184	2,199	1,985
Cross Country	-	549	549	-
Cross Country Concessions	741	2,169	1,555	1,355
Soccer	70	3,231	3,750	(449)
Tennis	-	1,915	2,082	(167)
Golf	-	2,593	2,593	0
Golf Camp	(182)	200	240	(222)
Basketball	-	8,693	8,608	85
Boys Basketball Camp	(460)	2,465	1,764	241
Elem. Boys Basketball Camp	475	-	-	475
MS Volleyball Camp	(609)	-	-	(609)
Boys Soccer Camp	5,518	4,416	4,965	4,969
Volleyball Camp	1,246	1,890	1,649	1,487
Football	-	22,601	22,801	(200)
FB Camp	3,356	3,738	1,242	5,852
Baseball	50	9,483	8,740	793
Baseball Camp	(127)	-	-	(127)
Wrestling	-	4,327	4,327	-
Boys Wrestling Camp	(277)	-	-	(277)
Girls BB Camp	1,591	6,775	5,311	3,055
Dug Out Club	166	-	-	166
Volleyball	-	4,145	4,145	-
All-American Basketball Camp	330	3,640	3,970	-
Softball	(50)	3,214	2,836	328
Interest	23,457	1,629	362	24,724
Annual	12,504	7,350	8,432	11,422
FFA Chapter	9,394	16,136	19,403	6,127
Sr. High Student Council	4,875	15,539	15,940	4,474
Jr. High Student Council	2,379	9,143	8,476	3,046
5-6 Student Council	1,210	9,324	7,851	2,683
Show Choir Concert	(3,500)	9,575	9,575	(3,500)

HUDSON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
Year Ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Cheerleaders	\$ -	\$ 10,688	\$ 10,688	\$ -
Fall Play/Musical	-	1,803	1,803	-
Vocal Music Production	2,689	1,522	1,824	2,387
MS Show Choir	2,586	1,158	3,032	712
Spanish Club Trip	1,077	-	-	1,077
Class of 2005	286	-	286	-
Class of 2006	(2,028)	2,358	5,391	(5,061)
Class of 2007	3,057	9,392	8,475	3,974
Class of 2008	1,423	1,500	-	2,923
Class of 2009	-	1,840	-	1,840
Athletic Boosters	6,401	63,012	61,160	8,253
Less: Intrafund Transfers	-	(39,562)	(39,562)	-
Total	\$ 82,956	\$ 308,372	\$ 302,495	\$ 88,833

See accompanying independent auditor's report.

## HUDSON COMMUNITY SCHOOL DISTRICT

## SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS  
FOR THE LAST FOUR YEARS

	Modified Accrual Basis Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 3,026,723	\$ 2,890,149	\$ 2,605,375	\$ 2,723,819
Tuition	677,476	731,701	754,763	770,982
Other	515,841	397,049	505,728	552,602
State sources	3,184,093	3,347,026	3,292,761	3,167,842
Federal sources	112,791	113,925	147,976	96,950
Total revenues	<u>\$ 7,516,924</u>	<u>\$ 7,479,850</u>	<u>\$ 7,306,603</u>	<u>\$ 7,312,195</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 3,071,382	\$ 2,894,122	\$ 3,020,726	\$ 2,774,834
Special instruction	706,136	786,141	727,211	593,538
Other instruction	753,371	666,700	604,831	650,594
Support services:				
Student services	330,175	311,754	288,757	267,325
Instructional staff services	213,238	261,015	243,441	225,930
Administration services	681,123	716,052	674,994	822,647
Operation and maintenance of plant services	542,427	602,093	524,184	482,179
Transportation services	170,876	158,013	133,512	139,280
Non-instructional programs	26,036	3,895	40	53
Other expenditures:				
Facilities acquisition	285,841	172,269	223,070	339,153
Long-term debt:				
Principal	500,000	430,000	425,000	400,000
Interest and fiscal charges	148,300	225,638	245,695	302,327
AEA flowthrough	209,842	210,164	213,445	221,502
Total expenditures	<u>\$ 7,638,747</u>	<u>\$ 7,437,856</u>	<u>\$ 7,324,906</u>	<u>\$ 7,219,362</u>

See accompanying independent auditor's report.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

To the Board of Education of  
Hudson Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Hudson Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated , 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hudson Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no material weaknesses during the course of our audit.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hudson Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about Hudson Community School District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Hudson Community School District and other parties to whom Hudson Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Hudson Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Oskaloosa, Iowa  
August 24, 2006

HUDSON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2006

Part I: Findings Related to the General Purpose Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

I-A-06 Support Documentation – We noted five disbursements of forty tested that had no supporting documentation or lacked full documentation, such as invoices or receipts.

Recommendation – The District should require full supporting documentation before making any disbursements or obtain and document Board approval to make a payment with the understanding the necessary documentation will be subsequently provided.

Response – We will consider this suggestion and will change our disbursement procedures so that all support documentation is retained and documented. We obtained support documentation for all disbursements subsequent to year end and will keep such documentation in the future.

Conclusion – Response accepted.

# HUDSON COMMUNITY SCHOOL DISTRICT

## SCHEDULE OF FINDINGS

Year Ended June 30, 2006

### Part II: Other Findings Related to Statutory Reporting:

- II-A-06 Certified Budget – Disbursements for the year ended June 30, 2006, did not exceed the amounts budgeted in any of the four functions.
- II-B-06 Questionable Expenditures – No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-C-06 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-06 Business Transactions – No business transactions between the District and District officials or employees were noted.
- II-E-06 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.
- II-G-06 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.
- II-H-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District’s investment policy were noted.
- II-I-06 Certified Annual Report – The Certified Annual Report was certified to the Iowa Department of Education timely and we noted no significant deficiencies in the amounts reported.
- II-J-06 Financial Condition – The Special Revenue Fund, Physical Plant and Equipment Levy had an unreserved, undesignated fund deficit of \$4,294 at June 30, 2006.

Recommendation – The District should investigate alternatives to eliminate this deficit balance.

Response – We will search alternatives to resolve this deficit balance.

Conclusion – Response accepted.

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